Guide to
Executing a successful IPO

pwc
Your success is our business

Wherever you are on your journey, our global network can provide you with the right mix of sector and IPO expertise, along with local and international market insights.

We’ll work alongside you through the flotation process and help you prepare your business for life as a public company, regardless of the market you choose to list on.

It’s our business to know your business
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Foreword

Welcome to the PwC Guide* to executing a successful IPO.

For a business, going public is never a straightforward process. Amongst others, a company is to be prepared for structural and regulatory requirements as well as for the demands of external investors. A comprehensive action plan and timetable needs to be developed, and communications are to be drafted. It involves meticulous planning, an appreciation of the often unpredictable nature of the stock market, and a patient but focused drive to achieving the end goal: to be a successful publicly listed company.

But the rewards can be significant. Given the scope of tasks and the specific complexities of the IPO process, however, access to these rewards requires, more than ever, expert help and advice. Listing a company can be one of the most challenging and fulfilling accomplishments a management team can achieve. This guide aims to provide a roadmap to IPO, highlighting in a comprehensive fashion all the key steps along the way.

The European IPO market currently benefits from strengthened investor sentiment, rising equity markets, low volatility and clearly accelerated GDP growth. As a result, the pipeline for 2018 and beyond looks very promising. Interestingly, private equity-backed enterprises continue to find their way to European equity markets, which is a sure sign of health for the industry itself and also a recognition that there is an appetite for good, strong companies.

This is not to say it is simple. The cyclical nature of the IPO market and the significant lead time mean it is absolutely imperative that your company is supremely well-prepared. Hence the timeliness of this guide. It takes you through the IPO process in a clear and concise way, exploring key issues such as how to position your business with investors, company structuring, the increased focus on corporate governance and, importantly, what life is like as a listed company.

It’s an exciting process, and one that needs commitment, patience and expert advice. To that end, we hope you find this guide useful.

January 2018

*) PwC’s Capital Markets group has developed this publication in cooperation with BVCA.
Introduction

Since 2012, we have seen a resurgence of IPOs backed by private equity (PE) with over 40% of total European IPO proceeds* being raised from PE-backed investments. Similarly, for the last five years, more than two out of every five IPOs* has been PE-backed, originating primarily from the consumer services, health care, financial and industrial sectors.

With PE-backed IPOs increasingly contributing to (overall strongly growing) IPO activity over the period from 2013 to 2017, more companies have undertaken dual-track processes, with inevitably some businesses opting for the sale route. This has been more evident from 2015 where we have witnessed increased volatility, global political and economic instability, and a fall in oil prices.

Despite the slight slowdown in IPO activity that we have observed during 2016, caused by the continued effect of these wider global economic and market uncertainties as well as specifically the EU referendum in the UK, the PE-backed IPO pipeline remains strong.

The European IPO market currently benefits from strengthened investor sentiment, rising equity markets, low volatility and clearly accelerated GDP growth. Overall, IPO activity in 2018 is likely to reach a post-financial crisis high and an IPO exit route for a PE investment continues to be a viable path in 2018 and beyond.

Going public is an extensive transformational process for a private company, one that requires a change in the mind-set of the company as it learns to run for the benefit of a wider group of investors and stakeholders and prepares to meet their needs and expectations.

As you take the steps to going public, you will be expected to:

- Define your company’s positioning in the market and build a supportable and attractive equity story;
- Determine your company’s tax and legal structure as soon as possible;
- Select the right management team and the team of advisers;
- Revise the governance structure and practices to align with market standards and practices;
- Engage with potential investors and embark on the roadshow to sell the deal; and
- Manage communication with the regulator to ensure required clearances are obtained.

This guide covers certain decisions and issues that come up time and time again during the IPO process and offers valuable advice and practical tips that the company and its shareholders should consider during their IPO planning process. By thinking of these early on, we believe that you can minimise the risk of disruption to an IPO process and maximise the value of your business on exit.

We hope this helps you and your portfolio of companies in undertaking your IPO journey.
The IPO process

The IPO process consists of three distinct parts:

A. Planning – understanding your objectives and honestly assessing your readiness.

B. Execution – running separate IPO workstreams to deliver key requirements.

C. Completion – selling your business to potential investors.

To drive this process it is critical to have an IPO project leader identified who is responsible for bringing the whole process together.

Although there are various stakeholders and advisers working with you and supporting management in the process, a strong and dedicated IPO leader is key to being able to direct the flow of information. They will be responsible for making day-to-day decisions and to ensure the control of the process is retained by the company and its shareholders.

Getting started

Many management teams find the IPO process daunting. Undergoing an honest assessment of how ready you are is fundamental to determine what is needed to get your house in order before you open the doors to public inspection and scrutiny.

What should you assess?

- **Which market** – Choosing where to list is one of the most important decisions you will make, whether you are planning an IPO or a secondary listing. As the financial markets become increasingly global, companies may look outside their local market to achieve their ambitions.

Choosing the most appropriate market may not be straightforward and will depend on a number of questions including:

- stage in your company’s development
- your overall growth strategy and objectives
- regulatory requirements on each exchange (initial and ongoing)
- speed and efficiency of listing
- cost involved in the initial process and ongoing
- what type of investors may be interested in your company or sector
- Index eligibility

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**Figure 2:** The building blocks of going public are as follows

<table>
<thead>
<tr>
<th>PLANNING</th>
<th>EXECUTION</th>
<th>COMPLETION</th>
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<tr>
<td>Understand your objectives</td>
<td>Changes and evidence of equity story</td>
<td>Analyst presentation</td>
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<td>Develop fit for listing agenda</td>
<td>Historical financial information</td>
<td>Pre-deal investor education</td>
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<td>Design road map</td>
<td>Non-financial metrics</td>
<td>Intention to float announcement</td>
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<td></td>
<td>Financial systems and reporting capabilities</td>
<td>Pathfinder / preliminary</td>
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<td></td>
<td>Business plan budgeting, working</td>
<td>Management road show</td>
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<td></td>
<td>Build Key Value Drivers</td>
<td>Bookbuilding / Pricing</td>
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<td></td>
<td>Early look investor meetings up to 12 months ahead of planned IPO</td>
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“Decisions are taken quickly during the IPO process often around important aspects such as the equity story, KPIs, growth opportunities and because the timetable is unforgiving there is little time to keep the connections and communication lines open with the rest of the management team. Ultimately there needs to be a lot of trust between those doing the IPO and those still running the business that the other group is doing the right things. During our IPO process, the most important was early and regular engagement with potential investors closely followed by getting the right project team and project manager in place from the onset.”

Sean Glithero, Chief Financial Officer, Auto Trader Group plc

- **Management team** – Do you have the right team not only for your business but also from an investor standpoint? Key management should have the right credentials, know your business and the team should have depth of experience and expertise.

- **Investment bank syndicate and other advisers** – Successfully completing an IPO depends to a great extent on the quality, commitment and expertise of the investment bank syndicate and other financial advisers who will be leading the transaction. Whilst you will very likely have existing relationships and contacts, it is advisable to run a careful selection process to ensure that you have the best possible team on board. In selecting your bank syndicate, there are a number of factors which need to be considered: experience in successfully executing similar IPOs, the breadth of the distribution franchise and quality of investor access, and the quality and impact of the research analysts who will be writing about your business. Choose all your advisers carefully – credentials are important but choose those who understand your business drivers and priorities and those who you can trust and get on with.

- **Financial track record** – Do you have financial statements in an acceptable GAAP? Are the consolidated financial statements already prepared and audited? Have you considered acquisitions and disposals in the three year track record period? Is your segment presentation optimal in comparison to your peers and complimentary to your equity story?

While these are questions that concern external reporting, they can also be as easily applied to internal management reporting. The board and management will need to get the information they need to run the business and report to the market on a timely basis. Often this can lead to the redesign of internal reporting packages to ensure all key performance indicators are being reported up through the business.

- **Governance** – Working out what you have in place against the applicable corporate governance code is a relatively simple exercise. Working out how to effectively remediate gaps is more involved as no one solution fits all.

- **Executive compensation** – There continues to be deep focus on executive compensation. Therefore a sensible plan should be put in place which both attracts and retains key management but also rewards them for increasing shareholder value. These plans should be comparable with the industry norm and take into account the tax consequences for the individual.

- **Related party transactions** – Related party dealings will be reported publicly and therefore all arrangements and transactions with affiliates such as officers, directors or major shareholders should be captured, assessed and documented. This can involve lawyers, underwriters and accountants who will assess existing relationships for any terms which may delay regulatory approval or indeed dilute value.

- **Tax and structuring** – Determining who the issuer will be, where it is incorporated, the appropriate tax jurisdiction and the capital structure on IPO are fundamental points to be discussed at the planning stage so you can understand the options available.
Investor relations – Investor relations is the face of your company and this function should be embedded as early on as possible. In this digital age there are many methods of communication which can be used for establishing your presence with potential investors.

A successful IPO requires a three-step plan – assessing readiness, planning to be ready and remediating any gaps. The considerations above may not all be relevant in all circumstances and there may be other areas which can come to prominence during the process. But what is important is that change is embedded quickly so that functioning as a publicly listed company is as smooth as possible.

“An IPO is a transformational event for any business and you need to be ready to deal with the additional demands and scrutiny that being a public company brings. An honest assessment of IPO readiness is an invaluable tool for management teams to identify key issues at an early stage and plan remediation actions to address them, thereby minimizing the risk of unforeseen issues arising during the IPO process, potentially saving both time and money.”

Jan-Willem de Groot, Director, Capital Markets, PwC
Maximising value at IPO - the equity story

Your IPO is an opportunity for you to define how your company is positioned in the market. Even if you already enjoy a high public profile and may have raised debt in the public market, the IPO represents a different level of disclosure, with a very clear focus on the future prospects of your business. It sets the tone for all subsequent market interactions by your company and provides the criteria against which future performance will be judged.

The basis for this positioning in the market place is your equity story – which is, in essence, a very clear and cogent explanation as to why investors should buy the stock.

There is no set formula as to how this should be laid out, but in every case the key is to take the core facts about the business and translate these into a well-substantiated rationale for why your equity story will reliably exhibit certain attractive financial characteristics.

Know your investors
Those who need to understand and buy into your equity story are typically generalist portfolio managers who will be evaluating each IPO as one potential financial instrument to buy versus all the other investment opportunities available to them. This has important implications:

- The business description and selling points need to translate clearly into profit, growth and returns. Potential investors are buying a financial instrument with certain defined characteristics and the equity story is all about substantiating those.
- The total package needs to be attractive in its own right – it is not just about being strong in a given sector but having a compelling returns profile.
- The three “C”s: the equity story needs to be crisp, comprehensible and compelling in a world where investment opportunities are often competing for attention.

Investors are realistic that circumstances change and businesses evolve, but the decision to reposition strategy and KPIs in the aftermarket require careful management, and would likely raise concern if done soon after the IPO was priced.”

Carsten Stäcker, Partner, Equity Advisory, PwC

Figure 3: Framework for equity story

<table>
<thead>
<tr>
<th>Addressable market</th>
<th>Well-supported and sustainable top-line growth</th>
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<tr>
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<td>Well-supported and sustainable top-line growth</td>
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<tr>
<td>Competitive market position</td>
<td>Well-supported and sustainable top-line growth</td>
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<tr>
<td>Business structure</td>
<td>Well-supported and sustainable top-line growth</td>
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<tr>
<td>Operating efficiency</td>
<td>Well-supported and sustainable top-line growth</td>
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<tr>
<td>Scalability</td>
<td>Well-supported and sustainable top-line growth</td>
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<tr>
<td>Capital required to fund growth</td>
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<tr>
<td>Financing structure</td>
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<td>Strength of capital management</td>
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Components of the equity story and investor focus areas

There is no one right answer as to what makes an optimal equity story given the very broad variety of business models and sector dynamics. An illustrative framework for translating a business plan into an equity story is shown in figure 3.

How and when to prepare

Once the syndicate has been appointed and the IPO process has been formally kicked off, the management team will be expected to provide a detailed presentation of the business to the banks.

This presentation is critical as it sets the tone for how the equity story will be laid out in all subsequent disclosure – for example, in the prospectus and the analyst and investor presentations. Businesses and their owners should ensure their equity story is in a good state and well substantiated, ready for this presentation.

Some key preparatory steps could include:

- Thorough testing of the business plan, including downside sensitivities, with management and stakeholders fully ‘bought in’.
- Reviewing financial disclosure and segmentation and ensuring that there is alignment between this and the drivers to be laid out in the equity story for the market.
- Ensuring the business plan is sufficiently sophisticated to be able to respond to detailed potential bank queries as to operational performance.
- Assessing the need for third-party validation (market and other experts’ reports) and commencing discussions with providers as appropriate.
- Starting to build a working draft equity story, with the assistance of external advisers as required.
- Creating a working Q&A document, including identification of risks and weaknesses and how those are mitigated.
- Building a ‘research model’ to establish the forecasts that would likely be generated by analysts on the basis of the information to be provided – to ensure that the company will be positioned to reach or beat estimates.
- Ensuring disclosure is consistent in any refinancing being run concurrently, or just prior to the IPO.

And lastly, the equity story will endure into listed company life. The management team will continue to be measured and monitored on how they will deliver against the strategic priorities, beat the financial forecasts established by analysts in their deal research, and show progress against non-financial KPIs disclosed at IPO.

“An IPO is extremely hard work, but for the CEO and CFO it is both a privilege to represent the leadership team and can also be fun! We were extremely fortunate to have a very strong leadership team in our operating companies so we could devote considerable time to the IPO process. You really must get a great IPO project manager, but make sure you truly understand the volume of work post-IPO and staff up accordingly. Early engagement with potential investors was very beneficial to us in shaping our thoughts about everything from advisers to messaging. You cannot start too early, e.g. we published a ‘glossy’ annual report as a private company for the three years prior to our float so financial information about our group was already in the public domain.”

Mandy Gradden, Chief Financial Officer; Ascential plc

Key takeaways - developing a strong equity story:

- A powerful equity story translates into profit, growth and returns.
- Adhere to the 3 C’s – be crisp, comprehensible and compelling.
- There is no one right answer as to what makes an optimal equity story – just make sure it is the right message for you.
- Test your business plan thoroughly and know and understand the risks and mitigations.
- Walk the talk – you will be measured against the equity story once public.
Running an effective dual-track process

One of the common requests from shareholders is their desire for optionality. Many IPOs are kicked off as part of a dual-track process, with a private sales process being openly publicised or a statement from the shareholder that they would be open to a sale if the opportunity presented itself.

A dual-track process has a number of key advantages in that it can set valuation expectations, increase market interest and promote the company in the eyes of the investor. Having said that it also adds a degree of complexity as the sale and IPO processes sometimes have conflicting goals.

The following areas of focus are important to both an IPO and a sale process:

- **Performance metrics** – In both processes there will be focus on the quality of earnings and key performance metrics.

Often this manifests itself in the presentation of an adjusted EBITDA measure which adjusts certain non-cash, non-recurring or exceptional items. Care should be taken over which adjustments are presented in the public offering documents. Often this forms the keystone of the presentation to analysts, rating agencies and buyside teams. If using non-financial KPIs consideration should be given to how robust and consistent the data is as it will need to stand up to legal verification for a public process.

- **Liquidity and working capital** – There will also be consideration of the level of working capital required and amount of debt and debt-like items on the balance sheet. Leverage ratios are often scrutinized by investors on IPO wanting to understand what the capital structure of the listed group will be going forward.

Figure 4: Running the transaction phase – example of a ‘dual-track’ process

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<th>Preparation</th>
<th>IPO PROCESS</th>
<th>SALES PROCESS</th>
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<td>Business plan sessions</td>
<td>Finalise buyers list</td>
</tr>
<tr>
<td>Prospectus drafting</td>
<td>Legal documentation</td>
<td>Drafting of Info Memo</td>
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<td>Vendor due diligence</td>
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<td>Stapled finance prepared</td>
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An IPO process is public and often results in expressions of interest. Key to determine how to accommodate buyer interest whether to ‘dual-track’
“To help make the process as efficient and flexible as possible plan early, consider up front all options available and agree key decision points.”

Nadja Picard, Partner, Capital Markets, PwC

- **Forecasting** – A sale process tends to look out three to five years whereas a working capital statement, required for the prospectus will look out 18-24 months. There may be slight differences in assumptions and outlook but in the main these two models should be produced on a relatively similar basis.

- **Offering Materials** – Although there are many required disclosures for a prospectus or registration statement, there are also many similarities to an offer document for a sale. The business, strategy and trend analysis flow through both a listing and the selling materials and therefore can be put together early on in the process.

While there are some synergies there are also distinct IPO work streams which cannot be left until a decision is made on which route to progress. The three key areas to focus on are:

- **Financial track record** – The three year historical track record must be prepared in accordance with IFRS for most exchanges, and additional disclosures are required for public companies. There is the potential need for interim financial statements depending on the timeframe for listing, and the segmental presentation should support the equity story.

- **Governance** – It is important to establish high quality corporate governance standards as early on in the process as possible. These will be underpinned by robust management information and management reporting systems and an experienced board of directors. New directors should be brought on board as early as possible. This will help to bring them up to speed and educate them on the culture, commercial and operational aspects of the business.

- **Planning the optimal company structure for IPO** – Moving from a private equity structure to a public company deleveraged model can lead to a change in taxes. This should be carefully considered when reassessing the tax structure and debt package for the IPO.

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**Key takeaways - running an effective dual-track process**

- Careful and rigorous planning is needed to protect management and the demands placed on them from two, sometimes competing, workstreams.

- Maintaining optionality may come at the price of being cost effective.

- Identify a strong project manager who understands both an IPO and a sales process.

- If undertaking a refinancing, ensure change of control clauses are flexible and take into account IPO scenarios.

- When financial modelling for both tracks, link the different models and ensure they are flexible – it allows changes and modifications to flow through both concurrently.

“Optionality is key to pursuing a successful exit strategy. We have seen only too often the markets closing at a moment’s notice so a dual-track process can help shareholders maintain value and reach a successful outcome. If planned well, this dual track process can be a key weapon in beating volatility.”

Martin Coenen, Partner, Capital Markets, PwC
Structuring your IPO

Getting the right company or group structure in place is critical to driving value and efficiency. Structuring considerations should include the following:

New company or existing holding company?
While both options are possible, we more often see a new company being incorporated with the purpose of being the issuer of the securities. This new company has the advantage of providing a ‘clean’ company for investors to invest in. Key considerations would include:
- Can the existing top company act as the listing vehicle?
- The marketability of the issuer’s jurisdiction.
- The ability to create distributable reserves.

Distributable reserves and dividend policy
When planning for an IPO consideration should be given to ensuring that the issuer has a buffer of distributable profits in order to be able to pay dividends in the future. In our experience directors prefer a three to five year dividend cover to provide the board with certainty that, subject to available cash, they can pay dividends in the short to medium term.

Cash flow in the chain
In the short term, if groups have dividend blocks in the holding chain they may fund dividends through loaning of cash to the issuer (which can use the buffer of distributable reserves that have been created). This is not, however, a sustainable means of funding dividends long term. Balance sheet restructuring may be needed to address deficits and clear the way for dividends to flow through the structure in the future.

Accounting framework
Listed groups in Europe are required to prepare consolidated accounts in accordance with IFRS.

Share classes and number of shares
The Issuer shall ensure that Securities of the same class have identical rights in accordance with National Regulations, the Issuer’s articles of association and other constitutional documents.

Figure 5: Target holding structure

Key takeaways – structuring your IPO
- Consider whether an existing group company or a new company is the best listing vehicle for you.
- Assess and plan for distributable reserves early on to ensure there is capacity to sustain the publicized dividend policy in the short to medium term.
- Look at whether there is a sustainable route for cash to flow from the trading companies to the holding company, and if there are any dividend blocks in the holding chain.
- Consider if the existing number of shares and class of shares can be listed, or if a share conversion, consolidation or split may be required.
- Consider where and how the IPO proceeds will be used and how those will flow through the group structure.

“Taking time to design the right structural solutions will help you reach an optimal group structure for your company that will ultimately drive operational efficiency and value at IPO and beyond.”

Oscar Kinders, Partner, Tax, PwC
**Developing an effective tax strategy**

*The transition from private to public company status creates a number of challenges from a direct taxation perspective.*

**Jurisdiction of the listing vehicle**

One of the key questions for most companies seeking a public listing will be the most appropriate issuer and its jurisdiction.

The drivers behind this selection will be tax and non-tax, though it is vital to understand that tax aspects will cascade through to areas such as corporate governance, corporate financing and treasury management, the development of intellectual property and location of new investment.

An important tax factor in the parent location is access to double tax treaties, such that cash and profits can be most efficiently circulated within the group and the controlled foreign company rules of the host country.

Some of the more traditional parent company locations employed, for example by private equity-owned companies, such as Luxembourg and the Netherlands have a solid tax system for listed companies. For instance, the Netherlands has one of the most extensive treaty networks to reduce withholding tax payments within the group and to institutional investors. Nowadays it is even more required to ensure that the operational substance of the listing company is aligned with the parent company location and therefore traditional parent company locations, such as the UK (certainly post-Brexit) or Luxembourg, may require more attention to maintain all the relevant requirements from a substance perspective.

**Tax strategy**

Prior to listing, many companies have had greater flexibility to determine the tax efficiency of their capital structure and freedom in their choice of corporate domicile. Conversely, public companies often enjoy wider access to international tax treaties.

For many private companies there is no requirement to have a tax strategy but it has often formed a valuable part of the equity story.

**Housekeeping**

Once public the market will generally expect more time to be devoted to tax management, compliance, transfer pricing and effective tax rate reporting. In the interests of being well prepared, many tax directors will spend time revisiting the adequacy of their transfer pricing documentation and benchmarking their effective rate of taxes against peers and comparators all before carefully defining and getting board approval of the company’s on-going tax strategy.

**Key takeaways - tax strategy**

- When considering a listing venue, assess tax, legal and accounting considerations and the perception of investors.
- Model debt capacity by key territory.
- Define dividend policy and funding requirements.
- Determine robust transfer pricing policy and country by country reporting.
- Identify impact/effect of any significant M&A transactions.
Corporate governance in a listed context

Going public will bring with it significantly more focus on governance and your reporting of how you adhere to regulation. The listing venue, the country of incorporation of your issuer and investor expectations will drive which corporate governance standards are applied. This in turn will play a part in determining a suitable board structure and suitable candidates.

A time of transition
Different companies take different approaches to corporate governance whilst private – in some cases there will already be a developed and formal approach to governance; in others, particularly businesses which have grown quickly, governance procedures may be more informal. In each case, there will likely be a transition to be undertaken in order to meet the standards board and governance required for being public. The key to managing this transition is ensuring that the resulting board is both acceptable to public market investors and – importantly – provides an environment of constructive challenge and support which allows the business to achieve its full potential.

Strike the right balance
Achieving the right board involves striking a balance between the demands of the regulatory regime and the needs of the business. For developed markets, such as Euronext, Deutsche Börse or the Premium Segment of the London Stock Exchange, there is a strong focus on independence in order to safeguard the interests of the new minority shareholders. Continental Europe, traditionally has seen two-tier board structures, with an independent Chair of

the Supervisory Board, and an overall majority of independent directors. However, more and more companies opt for a one-tier board.

In most cases there will be a desire to appoint a Chair of the Board and an Audit Committee Chair who are suitably senior and recognizable to public market investors; at the same time consideration should be given to ensuring there is a suitable balance of relevant skills, experience and insight among the independent directors to be able to bring real value to the table in boardroom discussions. A further factor which is increasingly attracting scrutiny is boardroom diversity, including ensuring an appropriate balance of women on the board.

Allow sufficient time to get it right
Building the right board takes time and needs to be initiated early in an IPO timetable. Independent directors, especially candidates to chair the board, will need to be identified but then will need to spend time understanding and undertaking due diligence of the business. It is vital that there is appropriate ‘chemistry’ with the CEO so that a good working relationship can be established.

“With the right planning and a careful approach, building a public company board can be a very positive step in the life of a company, delivering fresh insights and the expertise to help manage the transition to being listed. It is vital to invest the time required to get this right, including accessing specialist advice and support as required.”

Stephan Wyrobisch, Director, Capital Markets, PwC
Incentivising management

Prior to an IPO we often see companies both winding up and resolving legacy issues in pre-IPO remuneration plans (most often connected to the management equity plans) while designing and implementing new post-IPO remuneration policy and plans.

Legacy plans and legacy issues
It can be common for management remuneration packages in private equity-owned companies to be biased towards the expected value of the equity at the expense of immediate cash in the form of salary and bonus. Management may also not be able to sell much or any of their equity on the IPO due to the lock-in periods required by the sponsoring banks. This is to ensure new investors in the IPO have confidence that management are tied in to the equity.

Issues may arise where, for a variety of reasons, the equity value held by management has been eroded or in some cases wiped out.

Where additional compensation due to underperforming incentive schemes is provided it is often in the form of equity, sometimes earned on the basis of the satisfaction of additional performance conditions and which is normally earned over the period of two years post-IPO based on continued employment.

There is no real ‘market practice’ as the amounts are very specific to the company. More often than not this additional compensation is not linked to the post-IPO executive remuneration policy, and is instead a one-off expense paid for by the current owners of the business rather than pushed into the post-IPO world of institutional shareholders, corporate governance and regulation.

Remuneration policy post-IPO
The second aspect of executive remuneration is determining whether the design and implementation of the remuneration policy is fit for the post-IPO listed world. As a public company there is a huge variety of influences, including individual institutional shareholder guidelines, shareholder representative bodies, government regulations and ‘market practice’.

It is challenging for companies to be creative on the design of a remuneration policy and incentive plans in an IPO situation, not least because the company does not know who will hold the shares post-IPO. Institutional shareholders all have views on executive remuneration which can be very different from one another.

Key takeaways - incentivizing management

- Do not assume the existing incentive arrangements will be effective or attractive on IPO, it is important to review these early.
- Do not forget the value of corporate tax deductions – in some jurisdictions with high corporate tax rates, the difference between income and capital treatment may be minimal once corporate tax relief is included.
- Remember to assess how the accounting for options will impact results and earnings per share.
- Take advice on tax reporting and withholding tax impacts early, errors are often costly to rectify.
- The remuneration structure implemented on IPO is likely to be quite ‘vanilla’ but can be changed to improve efficiency post-IPO.
Interacting with the regulator

Dealing with regulators has become an ever more important feature of a successful listing and each exchange has a regulator which operates in a slightly different way. The regulators continue to focus on items such as compliance with Prospectus and Listing rules, but in addition to this they are focusing on eligibility and reputational concerns.

Each regulator has its own requirements and methods of ensuring that its rules are being met.

In the US the Securities and Exchange Commission (SEC) reviews and comments on each filing in the run up to a listing and focuses not only on how the disclosures meet the rules and requirements of the listing documents, but also on financial reporting and disclosure.

It is essential for companies seeking to list to get their communications with the regulators right. Decisions by regulators can have a huge impact on a company: increasing costs, potential for extending the timetable, altering key elements of the company’s business model and strategy, affecting reputation.

Key takeaways - interacting with the regulator

- Clearly articulated and well thought out communication is clear.
- Precedents are an incredibly useful tool when navigating your way through complex rules and regulations.
- The regulator can comment on all public information whether in your filing documents or on your website or in the press – it is important that there are no contradictions or omissions.
- Use your advisers to your best advantage to guide you through interpreting complex regulatory requirements.

“Building adequate time for obtaining regulatory approval in the road map should not be overlooked. Making sure there is enough time in the process to address any potential issues is crucial and will prevent the process being held up.”

Renee Verhoeff, Director, Capital Markets, PwC
Managing communication and delivering your message

Communication to potential investors is important not just in the run up to an IPO but remains a challenge in retaining and attracting investment once you are a listed company. Setting up an internal investor relations function early and employing a specialist agency in the process can save valuable time. And importantly it will help you establish a two way communication path between you and the financial markets.

Communication can take many forms, from meetings with potential investors, news releases, annual reports and setting up and maintaining your company website. The messaging across all channels should be the same and the sole goal is to inform stakeholders about the company so that they can gain a better understanding about the business, the strategy, governance, financial performance and prospects.

During an IPO this is often the first time the business has been in communication with the investor community and the investor education process and change in culture to one of increased transparency can be challenging.

Key takeaways – managing communication and delivering your message

- Get to know your new investor base very well – make time for regular CEO conversations and listen to their concerns.
- Develop a plan to broaden understanding of your equity story – among sell-side analysts and investors who did not buy in the IPO.
- Select your communication tools – with increasing use of social media by companies, there are many communication channels available to help you maximise success.
- Set your financial reporting calendar – taking into account regulatory requirements.
- Secure board commitment for adherence to this dialogue.
Life as a listed company

Whilst the IPO process can at times be all-consuming for companies and their management teams, it is important to remember that becoming listed is only the beginning, and that the business will need to adjust to life as a public company.

Setting and beating expectations
It is important to understand that, as part of the IPO process, research will be published which will establish consensus expectations as to what the business will deliver – from turnover through to earnings per share, plus dividends where they are paid. It is imperative that correct expectations are set during the IPO and that the company can meet or, preferably, slightly exceed them with its first set of results and beyond. To achieve this requires transparent and very detailed modelling work with the banks to ensure that appropriate guidance is provided to research analysts and, in turn, to investors.

Living with KPIs
For most businesses there will be a set of KPIs established with analysts and investors at the time of the IPO which will give a fuller picture on the drivers of the business – these will also help them to model future performance. It is important to spend time early in the preparation to ensure that KPIs are chosen which authentically reflect how the business is managed, and which you will be happy to continue to provide once listed.

The rhythm of corporate reporting
For many companies there will be a degree of adjustment to the pattern of regular public corporate reporting – which in Europe means preliminary results at the year end, and interim results at the six-month period. These will need to be carefully drafted, usually with the advice of corporate brokers and financial PR advisers, and will generally be supported by a management presentation or conference call. You may need to consider any enhancements which may be required in order to meet the demands of the reporting calendar.

Investor relations
As well as results announcements, thought needs to be given to managing and developing the new public investor base which has bought shares in the IPO. The banks’ equity research analysts will also need to be kept up to speed on developments, including ensuring their expectations are managed. With these aspects in mind, most companies hire a dedicated investor relations officer, possibly in advance of going public.

Figure 6: Median post-IPO performance European PE-backed versus non PE-backed IPOs (2010 – 2017)

*) Note: included deals > $100m, excluding PIPO’s and transactions on Over-The-Counter exchanges.
Source: Dealogic
Conclusion

In summary, whilst the macro-economic environment which influences whether the IPO market is open cannot be controlled, there are many eventualities that you can take control of and plan for to maximize your chances for a successful IPO.

The most successful IPOs are typically seen with companies that have already been acting as though they were a public company in the year ahead of listing. By doing this you are able to ensure that any issues or challenges have been successfully addressed before listing and you will be ready for life in the public eye as a publicly traded company.

You can start to do this by:
- Working with your advisers to engage with investors early so that they are familiar with the business and the management team;
- Evolving management and public reporting towards public company standards; and
- Forming a clear view of what additional procedures would need to be put in place for you to operate as a listed company and have a clear idea of how long this will take.

In this way the workload during the transaction phase itself is reduced and the IPO can be achieved in a shorter timeframe. The quicker the company can complete the process the more chance it has to take advantage of a favourable market.

Going public requires sound business reporting, adherence to strict regulation and listing rules and the involvement of numerous trusted advisers to ensure a successful outcome.

An IPO is a transformational event for any company. While it may be viewed as the end of a journey, it really is the beginning of the next stage of a company’s development and life as a public company.

Thoughts for stakeholders
- Consistent and clear public communication starting from the very first engagement with investors.
- Appoint the right IPO leader – this will be person in the management team who will bring the project together.
- Choose the right advisers for you – they should have relevant experience and credentials but more importantly understand your drivers and priorities.
- Consider additional resource to support key management through the transaction.
- If you are considering a concurrent trade sale and IPO process (dual-track) it is important to weigh up potential value benefits versus additional costs and timetable risk.

Thoughts for portfolio company management
- Make an honest assessment of your readiness well in advance of the process starting. This will help you understand what you need to do to get ready, set a realistic timeline and ensure you have a crisp story to tell investors.
- Map out how long it would take you to address all the issues and who would do it.
- Brainstorm up front all the difficult questions and what could go wrong.
- Choose advisers with care – credentials are important, and remember you will be spending a lot of time with them.
- Put a project structure in place to create the plan for how the transaction will be delivered, monitor progress and communicate with the working group.
Contacts

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**PwC Capital Markets**

At PwC, we have a dedicated capital markets team of about 500 professionals in over thirty countries who have extensive experience, market intelligence and tools to support you through every stage of the IPO process, from preparation to execution.

In addition to overseeing the substantial documentation and administration required, we can accelerate the process by working with you throughout all aspects of the transaction, from early strategic planning to carrying out a comprehensive IPO readiness assessment for your organisation.

We can highlight potential deal breakers, unforeseen issues and other critical areas where your current processes and structures might fall short of regulatory requirements and best practice.

We’ll then help you prioritise the key areas that need remediation—so that when you are ready to set your IPO in motion you can be confident that your processes are in line with the latest market requirements and stakeholder expectations for a listed company.

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Executing a successful IPO